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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000659

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

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SUBJECT: BRV DRAMATICALLY REDUCES EXXONMOBIL'S OPTIONS

REF: CARACAS 504

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: The BRV dramatically reduced ExxonMobil's (XM) options in the strategic association migration negotiations by ruling out the sale of XM's stake in Cerro Negro to third parties. The BRV also stated that the only Citgo/PDVSA asset that could be used to compensate XM is the Chalmette refinery. Compensation will be based on book value. Local XM employees will get their formal job offers to transition to the joint venture on March 30. The terms are expected to be far less generous than their current compensation packages. END SUMMARY

XM RUNNING LOW ON OPTIONS

12. (C) Petatt met with local senior XM executives on March 29 to discuss the current state of migration negotiations. Senior Energy Ministry and PDVSA officials met with XM executives on March 22 and 23 to discuss terms and presented XM with a memorandum of understanding (MOU). XM will not sign the MOU since its language does not match the verbal statements of BRV officials. XM has not decided if it will make a counter-offer to the BRV.

13. (C) As reported in Reftel, XM originally had four options: go to arbitration, sell its stake in the Cerro Negro strategic association to a third party, sell its stake to PDVSA, or migrate. XM executives told Petatt that BRV officials effectively eliminated one option and sharply reduced two others in meetings last week. XM was told the BRV will not permit XM to sell its stake directly to a third party. The executives stated that XM had been in preliminary discussions with other oil companies on the sale of the stake. XM had viewed a sale to a third party as the optimal solution.

14. (C) Concerned that the BRV would directly seek to sell its stake directly to another oil company, XM has clearly warned other companies in very strong terms that they should not purchase XM's stake in Cerro Negro from PDVSA until after all of the outstanding issues in the migration have been settled. A XM executive admitted that it would be harder to take action against national oil companies but that XM will not hesitate from doing so.

15. (C) The BRV also reduced the possibility of PDVSA directly purchasing XM's 41.67% stake by stating that it was only willing to offer the Chalmette refinery as part of the compensation package for the stake. The executives stated the Chalmette refinery was not sufficient compensation for their Cerro Negro stake.

16. (C) Although migration to a joint venture was the least likely solution (Reftel), the BRV has made it even more unattractive. The XM executives stated their company was the only one to receive numbers from the BRV. The compensation offer was based on book value and was not close to the market value of the assets, on which XM is basing its compensation claim. The XM executives noted that the BRV paid book value in 1975 when it nationalized the hydrocarbon sector, so its current position is in line with past actions. Although the BRV provided XM with numbers, it has not discussed migration details with the company, including the issue of acreage.

17. (C) However, the BRV has inserted language in its proposal that reduces a majority vote in the proposed joint venture from 75% to 67%. This will allow the PDVSA to bully minority stakeholders such as BP in Cerro Negro and Statoil

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in Sincor into voting the way it wants. A XM executive stated the president of Total Venezuela contacted him to express concerns over the provision. According to the XM executive, Total has been discussing details with the BRV but has not reached a decision on migration, contrary to rumors.

EMPLOYEES

18. (C) The executives stated that local XM employees will receive an official job offer on March 30. Venezuelan law requires that employees be given one month to reach a decision on accepting employment with the joint venture. Since PDVSA will assume operational control on May 1, the offer has to be made no later than March 30. The situation has been complicated, however, by the human resources director that PDVSA has assigned to handle the migration's employment issues. The director has caused multiple problems and has accused XM of trying to sabotage the migration. XM executives called an emergency meeting of the transition committee in order to deal with the situation. They theorized that PDVSA is trying to build up a record to lay the blame on XM when problems arise after they assume operational control on May 1.

19. (C) XM executives expect the terms of the employment offer to be far less generous than the employees' current compensation package. One executive stated a number of employees were clearly hostile to local XM management during the last employee forum. XM has installed a metal detector at the entrance of the executive suite. The executive also stated that PDVSA will take over two of the four floors in XM's Venezuelan headquarters. PDVSA employees will not be allowed to freely enter the XM floors and vice versa. The executive stated this will further complicate things since some of the PDVSA employees will be former XM employees.

COMMENT

10. (C) At this point, it appears that XM will end up taking the BRV to arbitration. As we have repeatedly noted in the

past, we do not believe that PDVSA has the technical expertise or human capital to run the Cerro Negro operations.

We concur with XM that the BRV and PDVSA will try to claim that XM sabotaged the migration process and expect them to try and build a record to support the claim. XM executives state they believe Total and ConocoPhillips, the other operators in the strategic associations, have not reached a decision yet regarding the migration. Based on what we have seen and heard, that appears to be the case.

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